

NOTE: These minutes were approved and executed at the April 24, 2015 Independent Investment Committee meeting.

**Independent Investment Committee Meeting
March 20, 2015**

Public Minutes

**New Hampshire Retirement System
54 Regional Drive
Concord, NH 03301**

Committee Members: Harold Janeway, *Chair*; David Jensen; Maureen Kelliher; Patrick O'Donnell; and Hersh Sosnoff.

NHRS Trustees: Dean Crombie; Germano Martins; David McCrillis; and George Walker.

Staff: George Lagos, *Executive Director*; Larry Johansen, *Director of Investments*; and Greg Richard, *Investment Officer*.

NEPC: Kevin Leonard, *Partner and Senior Consultant*; and Sean Gill, *Partner*.

Mr. Janeway called the meeting to order at 9:03 a.m.

On a motion by Mr. O'Donnell, seconded by Mr. Jensen, the Committee unanimously approved the public minutes of the January 23, 2015 Investment Committee meeting, as presented.

Mr. Johansen reviewed investment returns through recent periods, referring to the NEPC Marketable performance flash report for periods ending February 28, 2015. He discussed the returns of various managers and asset classes over multiple time periods.

Mr. Johansen noted that an economist from Standard Life Investments is available to make a presentation at the June Committee meeting and the Committee confirmed their interest. Mr. Johansen indicated that Collier Capital is in the market with Fund VII. The NHRS made a \$20 million commitment to Fund VI. Collier will be scheduled to make a presentation to the Committee at the April or May meeting.

Mr. Johansen provided an overview of the Work Plan and updated the Committee on several initiatives. He provided an update on the status of the restructuring of the Fixed Income portfolio. He noted that the

investment management agreement with recently retained unconstrained fixed income manager Manulife has been finalized and the mandate funded. Mr. Johansen indicated that the Income Research + Management (“IR+M”) short-duration cash management account (“CMA”) has been funded and that IR+M has built the portfolio to its desired positioning. The Committee agreed to review the manager allocation within the aggregate Fixed Income portfolio at an upcoming Committee meeting. The Committee confirmed that the CMA should be periodically replenished as part of the regular rebalancing process and sourced from the BlackRock S&P 500 index portfolio or, on an opportunistic basis, from other active equity or fixed income managers.

Mr. Howard Newman, President and Chief Executive Officer of Pine Brook Partners (“Pine Brook”) presented a brief introduction of himself and the firm. He referred to Pine Brook’s “Oil and the U.S. Economy” presentation dated March 20, 2015. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Newman confirmed that the volume of the oil futures market is approximately ten times the size of the physical oil market. Mr. Newman stated that, in general, banks that lent to oil companies are doing okay primarily due to underwriting requirements in which loans were made up to 50% loan-to-value (LTV) on the assets and that also required oil companies to hedge the price of oil on at least 50% of the volume. He noted Pine Brook’s base case scenario is that the call on North American shale is permanently reduced and that prices recover and stay in the \$60-\$70/barrel range. He stated that he does not expect any substantial domestic decline in tight oil production over the next 12 to 18 months. Mr. Newman concluded by stating that, on a global basis, the significant decrease in oil prices should result in no net change to aggregate demand as lower incomes in producing countries are offset by higher incomes in consuming countries. From Pine Brook’s perspective, he stated that it is economically advantageous to drill at \$60 per barrel compared to \$100 as the cost structure shifts disproportionately downward while retaining upside potential if oil prices increase over time.

Mr. William Conway, Co-Founder and Co-Chief Executive Officer, of The Carlyle Group (“Carlyle”) presented a brief introduction of himself and the firm. He referred to Carlyle’s “New Hampshire Retirement System” presentation dated March 20, 2015. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Conway stated that although deflation is a possibility in the U.S., it is not Carlyle’s base case

scenario. He confirmed that today's low-rate return environment has made it more challenging to find interesting investment opportunities. Mr. Conway concluded by summarizing the impact of lower oil prices on various regions throughout the world.

Mr. George Anson, Managing Director, of HarbourVest Partners ("HarbourVest") presented a brief introduction of himself and the firm. He referred to HarbourVest's "New Hampshire Retirement System" presentation dated February 2015. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Anson confirmed that the goal of quantitative easing in Europe is to drive consumer spending in order to "kick start" the economy. Mr. Anson explained the historical relationship between real GDP growth in Europe and private equity buyout performance. He summarized the "good, bad and ugly" associated with central bank policy; Euro weakness; low growth (GDP); depressed oil prices; and political risks. Mr. Anson provided his thoughts on a potential Greece exit from the Euro and the possible subsequent outcomes.

Mr. Robert Bixby, Executive Director, of The Concord Coalition ("CC") presented a brief introduction of himself and his organization. He referred to CC's "The U.S. Fiscal Challenge: Mission Not Accomplished" presentation dated February 9, 2015. A lengthy discussion with the Committee followed.

In response to Committee member questions, Mr. Bixby provided an overview of the federal budget deficit and federal budget projections. He noted that discretionary spending has decreased from approximately half of the budget in 1975 to about a third of the budget in 2015, with the percentage forecasted to decline to under 25% of the budget by 2025. Mr. Bixby summarized possible solutions to the U.S. federal budget deficit.

On a motion by Mr. Janeway, seconded by Mr. Jensen, the meeting adjourned at 12:48 p.m.